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Detailed response by the
Federal government to the
recommendations ...



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DETAILED RESPONSE BY
THE FEDERAL GOVERNMENT
TO THE
RECOMMENDATIONS OF THE REISMAN COMMISSION OF
INQUIRY INTO THE CANADIAN AUTOMOTIVE INDUSTRY

March 1979

INTRODUCTION

On June 28, 1978, Mr. Simon S. Reisman was appointed a Commissioner under Part I of the Inquiries Act to inquire into and report upon the means to ensure the development in Canada of a balanced and internationally competitive automotive industry.

Mr. Reisman's report entitled "The Canadian Automotive Industry Performance and Proposals for Progress" was received by the Government at the end of October and was tabled in the House on November 23, 1978.

This report along with previous studies of the automotive industry provided valuable insights into the performance of the industry under the Automotive Products Trade Agreement and its thorough analysis helped to clear up much of the confusion evident in public debate on the issues facing this important sector of the Canadian economy.

Mr. Reisman made a series of recommendations for action to improve the long term prospects for the industry. Responses to each of these recommendations are now being made along with responses to the recommendations of the Consultative Task Force on the Automotive Industry and a statement of Government policy for the automotive industry.

DETAILED RESPONSE TO THE REPORT OF THE REISMAN COMMISSION OF

INQUIRY INTO THE CANADIAN AUTOMOTIVE INDUSTRY

1. The Government should improve its statistical reporting by adopting a format similar to that in the Report.

Agree A major contribution of the Reisman Report has been to disaggregate trade statistics in order to show trade balances in each of the major sub-sectors of automotive trade, i.e. under the Automotive Agreement, with third countries, in aftermarket parts and non-merchandise transactions. This format has significantly assisted analysis of developments in the automotive industry, and the appropriate government agencies will maintain and improve on it in future statistical reporting.

2. The Government should establish an independent advisory body, with the authority to make inquiries, to review the industry on an annual basis.

Agree in Part The continuing health of the automotive industry is very important to the Canadian economy, and because the industry will be undergoing rapid change over the next five years it will be important to monitor developments and to facilitate knowledgeable public discussion of these developments. Canada does not currently have in place an independent advisory body such as the International Trade Commission in the U.S. which would be suited to the preparation of an annual review. The Department of Industry, Trade and Commerce will review the industry on an annual basis and produce an Annual Report beginning with the 1979 model year. This report will be subject to consultation with all interested parties in the industry.

3. The Government should not attempt to renegotiate the Automotive Agreement at this time, but should study its provisions seriously with a view to probable future negotiations.

Agree At this time, no renegotiation of the Automotive Agreement with the United States will be sought. The Government will need, however, to assess carefully, on an ongoing basis, whether the Automotive Agreement provides an adequate framework for the future development of the Canadian industry.

4. The Government should implement a trade insurance program to offset the perceived risks of investing in Canada to serve the North American market.

Not accepted It is difficult to conceive how such a program could be implemented in practice. The Government therefore has not accepted this recommendation.

5 & 6. The Government should terminate existing duty remission programs and replace them with a program which would permit "designated vehicle importers" duty-free entry of vehicles if they procure or produce parts in Canada to a value of 60 to 75 per cent of the cost of vehicles imported.

Requires Further Study There appear to be certain possible advantages to the "designated vehicle importer" proposal, in that it could result in more production and a better regional distribution of automotive activity in Canada than the existing duty remission scheme, and it could reduce prices of imported vehicles to consumers and increase competition in the market place. This proposal is being examined carefully and the Government will be consulting further, as appropriate, with the principal off-shore manufacturers who might take advantage of the proposal and with existing North American manufacturers to determine more precisely the scope, elements and impact of such a program. In the meantime, the existing policies on duty remission will be maintained.

7. The Government should try to obtain multilateral or bilateral agreement that governments will cease industrial investment subsidization as it applies to jurisdictions which do not merit special regional development considerations.

Agree Discussions have already taken place between Canadian and American officials on the question of competitive subsidization to attract new investment and will be pursued on an urgent basis with a view to reaching agreement to contain the use of such subsidies. However, until these negotiations prove successful, the Government will not stand by if substantial investments are being lost to Canada as a result of incentives available in the U.S. In order to offset the effect of investment subsidies available in the United States, special federal government assistance would be considered in those cases which do not meet the criteria of existing federal government programs when such aid is beyond the financial capacity of the province concerned and when the project would otherwise be lost to Canada.

8. In anticipation of a large number of applications from automotive parts producers for loan guarantees under the Enterprise Development Program (EDP), the Government should assign officers expert in this field to EDP administration to ensure an effective and expeditious response.

Agree in Principle The EDP is administered by joint public-private sector Boards, assisted by ITC officials. The Program has so far operated effectively, and the need for additional staff will be considered on the basis of the volume of applications from industry.

9. Rationalization of the aftermarket parts sector by allowing "designated parts importers" to import part of their product line duty-free provided that they achieved a certain value of production in Canada, is the best means of promoting internationally competitive production in this sector.

Requires Further Study The aftermarket sector is extremely complex because most manufacturers supply both the original equipment and replacement markets and because it includes distributors as well as manufacturers. Canada's chronic trade deficit in aftermarket parts indicates that restructuring, possibly along the lines of the original equipment industry, is needed. There has, however, been inadequate analysis to date, to determine the best means of proceeding. This problem is being studied on a priority basis in consultation with the industry.

10. The Government should permit duty-free entry of all materials used in the production of automotive parts and accessories.

Not accepted The intent of this recommendation is to ensure that Canadian automotive parts producers who operate in a North American free trade environment are able to obtain their materials at prices competitive with their U.S. counterparts. There are already provisions covering duty-free entry of materials not made in Canada. Furthermore, the automotive industry is an important market for Canadian producers of industrial materials. The Government does not, therefore, accept this recommendation.

11. The Government should establish an assistance program for automotive workers who are displaced as a result of major industrial adjustments in the automotive parts sector.

Agree in Principle While none of the measures proposed at this time contemplate the need for "major industrial adjustments", the Government already has a range of programs which might be suitable for this purpose

12. The Government should substantially enlarge the fund available under EDP for innovation assistance. Smaller parts makers should be eligible for grants covering 75 to 100 per cent of costs and should not be subject to the "significant burden" test. The large, foreign-owned parts makers should be eligible for assistance in the form of forgivable loans not exceeding 75 per cent of costs.

Agree, with modifications A number of changes in EDP innovation assistance which are consistent with this recommendation have been announced in recent months; the size of the fund has more than doubled, and the level of assistance for smaller firms has been increased from 50 per cent to 75 per cent of R & D project costs. In view of the rapid technological change which the North American automotive industry will be experiencing in the next few years and the relative deficiency of Canadian-based automotive development, it has been decided that automotive parts manufacturers will be given access to EDP funds for innovation projects that are, in the judgement of Treasury Board on the recommendation of the Enterprise Development Board, of exceptional benefit and are otherwise not likely to be undertaken in Canada.

13. Vehicle producers should be permitted to claim 200 per cent CVA credits under the Automotive Agreement for annual increase of R & D expenditures over a base period value.

Not Accepted Vehicle producers would have an incentive to increase R & D under this scheme only if they could not otherwise meet their CVA requirements. Vehicle manufactueres have generally operated well above their CVA obligations. In any case, it is possible that increases in R & D achieved in this way would be at the expense of production in Canada. The Government therefore does not accept this proposal.

14. In order to offset the higher equipment costs associated with R & D in Canada, the Government should remit two-thirds of customs duties payable on equipment imported for R & D use.

Not Accepted Such reductions, when compared to other R & D incentives already in place, would not materially affect decisions to perform R & D in Canada and could displace Canadian production in a high technology area. The Government therefore does not accept this recommendation.

15. The Government should add a new section to the Program for Export Market Development to assist Canadian manufacturers in obtaining foreign technology which can be adapted and developed in Canada.

Agree, with modifications This recommendation is addressed principally to small Canadian-owned firms which, unlike their multinational competitors, do not have ready access to foreign technology. The Government will provide assistance to Canadian manufacturers under EDP to obtain foreign technology which can be adapted and developed in Canada.

16. The Government may wish to consider measures of a restraining nature to achieve greater R & D in Canada, such as limiting the amount of R & D payments to foreign affiliates which may be deducted for tax purposes, should incentive measures not prove effective.

Not Accepted Such measures may not result in increased R & D activity in Canada. Tax measures of the form proposed might well be perceived as discriminatory and could thus result in actions being taken in other countries. Such an eventuality would not be in Canada's best interest. For these reasons, the Government does not accept this recommendation.

17. The prospect of achieving increased production and employment in Canada would be impeded if commitments were made to reduce most-favoured-nation tariffs on vehicles and parts at this time.

Noted This recommendation has been noted by the Government and will be considered in the context of a final, overall MTN package.

